

Message Text

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ACTION EUR-12

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C O N F I D E N T I A L LISBON 5734

E.O. 11652: GDS
TAGS: EAID, PO, PEPR
SUBJ: FY-80 NE BUDGET REVIEW

REF: (A) STATE 194069; (B) LISBON 5205; (C) LISBON 4303
(D) LISBON 4563

1. I CANNOT HELP BUT EXPRESS MY DISMAY AT THE INSENSITIVITY TO THE PORTUGUESE SITUATION AS EXPRESSED BY REFTEL (A). MY FEELINGS ON THIS SCORE CONTINUE TO BE THOSE I DESCRIBED IN REF (B). THE TENOR OF REF (A) IS THAT AID/WASHINGTON IS LOOKING AT PORTUGAL AS IF IT WERE A TYPICAL DEVELOPMENT CLIENT, IN WHICH WE COULD AFFORD TO WAIT FOR THE FULL ELABORATION OF A DEVELOPMENT STRATEGY AND A SELF-HELP PROGRAM BEFORE MAKING A BASIC COMMITMENT REGARDING ASSISTANCE. IN CONTRAST, WHAT I ATTEMPTED TO CONVEY--APPARENTLY UNSUCCESSFULLY--IN REFERENCES (C) AND (D) AS WELL AS DURING MY JUNE CONSULATATIONS IN WASHINGTON WAS THAT WE ARE DEALING HERE WITH AN OVERRIDING US POLITICAL INTEREST: PRESERVING AND STRENGTHENING PORTUGAL'S FRAGILE DEMOCRATIC INSTITUTIONS, AND THAT FINANCIAL ASSISTANCE IS AN ESSENTIAL INSTRUMENT IN THE ACHIEVEMENT OF THAT OBJECTIVE. THE ECONOMIC PROSPECTS WHICH WILL AFFECT THE POLITICAL FUTURE HERE ARE ALREADY SUFFICIENTLY CLEAR TO PERMIT--INDEED THEY IMPEL--A DECISION NOW THAT THE U.S. WILL PROVIDE SUPPORT-
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ING ASSISTANCE TO PORTUGAL IN FY 80.

2. REGARDING THE QUESTION OF THE COUNTRY'S BALANCE OF PAYMENTS NEEDS IN BUDGET YEARS 80, 81 AND 82, IT SHOULD HAVE BEEN EVIDENT FROM OUR ANALYSIS OF THE ECONOMIC OUT-LOOK CONTAINED IN REFERENCE (C) THAT THERE WILL BE NO MIRACULOUS TURNAROUND AFTER FY 79 IN PORTUGAL'S BALANCE

OF PAYMENTS AND THAT PORTUGAL WILL BE FACED FOR A NUMBER OF YEARS WITH A LARGE DEFICIT EVEN UNDER THE BEST OF DOMESTIC AND INTERNATIONAL CIRCUMSTANCES. WE WILL, AS WE HAVE ALREADY INDICATED, BE SUBMITTING IN THE NEAR FUTURE OUR BALANCE OF PAYMENTS PROJECTIONS FOR THE OUT-YEARS. BUT ON THE BASIS OF THE SITUATION WHICH WE HAVE ALREADY DESCRIBED IN SOME DETAIL, THE BASIC DECISION AS TO WHETHER PORTUGAL NEEDS A SUBSTANTIAL AMOUNT OF SUPPORTING ASSISTANCE DURING THAT PERIOD NEED NOT WAIT THE REFINEMENT OF WHAT ARE OBVIOUSLY GOING TO BE EXTRAPOLATIONS FROM THE SITUATION IN FY 78/79.

3. AS FAR AS "DEVELOPMENT STRATEGY AND SELF HELP ACTIONS", AS WE HAVE ALREADY REPORTED THE GOP HAS BEEN MAKING A SERIOUS EFFORT OVER THE PAST MONTHS TO DEVELOP A MEDIUM-TERM DEVELOPMENT PLAN FOR PRESENTATION TO EXTERNAL DONORS. THIS PLAN HAS HAD THE PERSONAL ATTENTION OF THE MINISTER OF FINANCE AND PLANNING, VITOR CONSTANCIO, WHO REGARDS IT AS A CENTERPIECE FOR THE COUNTRY'S ECONOMIC POLICIES FOR THE NEXT SEVERAL YEARS AS WELL AS A FRAMEWORK FOR MULTI-DONOR SUPPORT.

4. "THE POLICY FRAMEWORK FOR DISCUSSION WITH POTENTIAL INTERNATIONAL BILATERAL DONORS" WAS SET FORTH IN REF (D). ITS POINT OF DEPARTURE IS THE COMMITMENT BY THE EUROPEAN COMMUNITY TO ACCEPT PORTUGAL'S MEMBERSHIP APPLICATION AND

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TO ASSUME A SPECIAL RESPONSIBILITY TO ASSIST PORTUGAL IN MODERNIZING ITS ECONOMY AND RESOLVING ITS BALANCE OF PAYMENTS DIFFICULTIES.

5. REGARDING THE MODALITIES OF THAT ASSISTANCE (PARA 3 REF (A)) I HAVE NO STRONG FEELINGS REGARDING THE PROPOSED CIP MECHANISM. IF IT IS WASHINGTON'S JUDGEMENT THAT OUR ASSISTANCE CAN BE MORE EFFECTIVE BY A SIMPLE CASH TRANSFER MECHANISM I CERTAINLY HAVE NO REASON TO QUARREL WITH SUCH A SOLUTION. OUR ADVOCACY OF THE CIP APPROACH WAS SIMPLY DESIGNED TO PROVIDE AN EXTRA MARGIN OF LEVERAGE ON THE DIRECTION OF INVESTMENT HERE, AS BETWEEN PUBLIC SECTOR AND PRIVATE SECTOR. BUT THE MAIN PURPOSE REMAINS THAT OF CONTRIBUTING TO A MULTI-DONOR ASSISTANCE PACKAGE WHICH WILL PROVIDE THE POLITICALLY ESSENTIAL CUSHION FOR THE AUSTERITY MEASURES AND DEVELOPMENT EFFORT THAT ANY PORTUGUESE GOVERNMENT WILL BE FORCED TO TAKE OVER THE COMING YEAR.

6. I CONTINUE TO BE CONCERNED BY AN APPARENT LACK OF LINKAGE BETWEEN OUR POLICY TOWARD PORTUGAL AND THE PROCESSES FOR IMPLEMENTING THAT POLICY, NAMELY BUDGETARY

DECISIONS ON MILITARY AND ECONOMIC ASSISTANCE. MY INSTRUCTIONS
FOR THE CONDUCT OF MY MISSION HERE WERE TO ASSURE THAT THE
UNITED STATES DID NOT, BY FAILING TO TAKE PREVENTIVE MEASURES, LET
THE FLEDGLING PORTUGUES DEMOCRACY GO DOWN THE DRAIN. LEST
ANYONE THINK THAT THE LATTER EVENTUALITY IS FANCIFUL,
THEY SHOULD SIMPLY READY THE CABLE REPORTING THE CURRENT
GOVERNMENT CRISIS. THAT CRISIS IS SYMPTOMATIC OF THE
FRAGILITY OF DEMOCRATIC INSTITUTIONS. WE ASSUME IT WILL
BE RESOLVED IN A WAY THAT WILL PERMIT THE NEW GOVERNMENT TO
PROCEED WITH FULFILLMENT OF THE IMF STABILIZATION PROGRAM
AND THE COMPLETION OF THE MEDIUM-TERM DEVELOPMENT PLAN.
WE SHOULD BE IN A POSITION TO SUPPORT THAT PROCESS ONCE THE
NEW GOVERNMENT IS IN PLACE. FOR US TO BE IN A POSITION TO
DO SO, WE SHOULD BE TAKING THE NECESSARY BUDGETARY DECISIONS
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